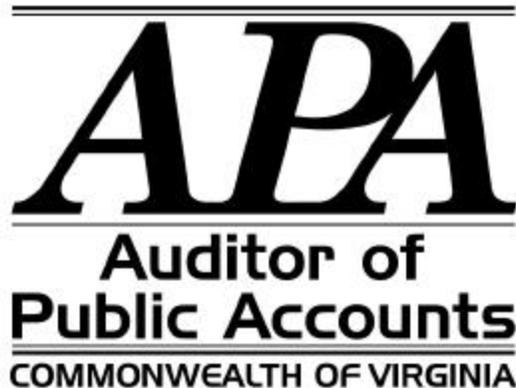


**DEPARTMENT OF CORRECTIONS
and
VIRGINIA PAROLE BOARD
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of the Department of Corrections and Virginia Parole Board for the year ended June 30, 2000, found:

- amounts reported in the Commonwealth Accounting and Reporting System were fairly stated;
- certain internal control matters that we consider reportable conditions; however, we do not consider these matters to be material weaknesses;
- instances of noncompliance with selected provisions of applicable laws and regulations; and
- inadequate implementation of corrective action with respect to the prior audit finding "Properly Record Capital Lease Payments."

Our audit findings include the following:

- Improve Procedures over Small Purchase Charge Card Program
- Improve Internal Controls over Payroll
- Follow Inmate Payroll Procedures
- Ensure Proper Recording and Tracking of Leases

Financial information, findings, and recommendations related to Virginia Correctional Enterprises are contained in a separate audit report we have issued.

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AGENCY BACKGROUND AND FINANCIAL INFORMATION

The Department of Corrections (Corrections) operates the state's correctional facilities for adult offenders and directs the work of all probation and parole officers. Corrections has determined that its mission is to enhance public safety by controlling and supervising sentenced offenders in a humane, cost-efficient manner, consistent with sound correctional principles and constitutional standards. Corrections also coordinates correctional activities that relate to parole with the Parole Board. Corrections processes the financial transactions of the Parole Board and reports its financial information.

Corrections administers operations through a central administrative agency, two central divisions, and four regional offices. The two central divisions are Institutions and Community Corrections. The Institutions division oversees the operations of 29 major correctional centers, two reception and classification centers, one treatment center, and 15 field units. During fiscal year 2000, Corrections had an average daily population of 28,914 inmates in these facilities.

The Community Corrections division had approximately 836 inmates in alternative programs, including five detention centers, six diversion centers, and a boot camp for non-violent probationers. In addition, division staff supervised over 37,000 probationers and parolees. Community Corrections operates with 42 Probation and Parole Districts and 546 Probation Officers. In addition, the Community Corrections' Local Facilities Unit is Corrections' liaison with local and regional jails and lockup throughout the Commonwealth.

During fiscal year 2000, Corrections employed over 12,800 individuals, most of whom work in the Institutions division. The following schedule compares selected operating statistics for the past five fiscal years. The Department's operating budget has increased over the last five years as new facilities have been opened.

	Fiscal Year 1996	Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000
Average Daily Inmate Population ¹	24,104	24,842	24,967	27,118	29,750
Average Annual Cost Per Inmate	\$16,590	\$16,234	\$17,253	\$18,590	\$19,364
Total Operating Budget (in millions)	\$542	\$560	\$607	\$705	\$762

Source: Management Information Summary Report

¹ This ADP includes inmates in all forms of incarceration as described above.

Corrections primary funding comes from general fund appropriations that pay over 85 percent of the operating expenses. Corrections also receives monies from housing out-of-state inmates and from federal grants. The table on the following page details general fund operating appropriations and expenses for fiscal year 2000. The table does not include operations of the Virginia Correctional Enterprises.

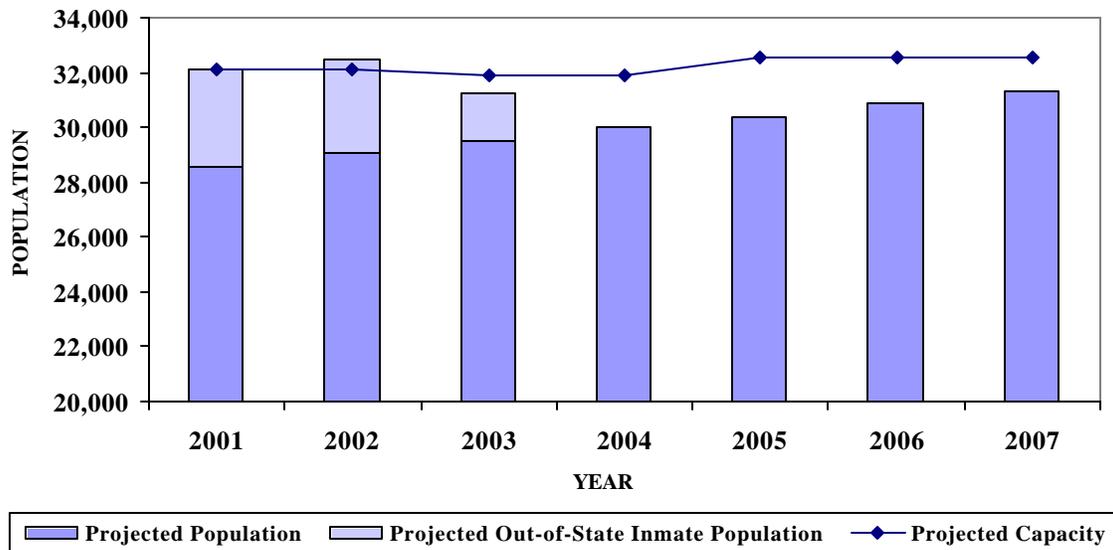
Program	Appropriations	Expenses
<u>Division of Institutions:</u>		
Secure confinement	\$ 308,788,264	\$ 308,787,088
Administrative and support services	219,425,567	219,370,600
Classification services	6,625,618	6,624,663
Agribusiness	<u>5,864,679</u>	<u>5,861,911</u>
Total	<u>540,704,128</u>	<u>540,644,262</u>
<u>Division of Community Corrections:</u>		
Probation and re-entry services	48,492,129	48,438,433
Administrative and support services	2,452,833	2,452,316
Community based custody	27,974,458	27,963,872
Confinement and custody research, planning and coordination	197,588	197,168
Financial assistance for confinement in local facilities	<u>2,031,947</u>	<u>-</u>
Total	<u>81,148,955</u>	<u>79,051,789</u>
<u>Central Administration:</u>		
Administrative and support services	33,786,189	33,785,648
Criminal justice training, education, and standards	4,237,181	4,237,181
Confinement and custody research, planning and coordination	1,052,440	1,048,828
Vending facilities, snack bars, and cafeterias	<u>546,089</u>	<u>546,089</u>
Total	<u>39,621,899</u>	<u>39,617,746</u>
Agency Total	<u>\$ 661,474,982</u>	<u>\$ 659,313,797</u>
<u>Virginia Parole Board:</u>		
Probation and re-entry services	<u>\$ 885,482</u>	<u>\$ 768,286</u>

INMATE POPULATION AND CAPACITY

Corrections built and opened five new prisons in recent years. Of these five prisons, Fluvanna and Sussex I opened in fiscal year 1998; Red Onion, Sussex II and Wallens Ridge opened in fiscal year 1999. Corrections also contracted with a private entity to operate a medium-security prison in Lawrenceville in 1998, which we discuss in more detail in the section entitled "Prison Privatization."

The need for these new facilities came from past inmate population forecasts that projected inmate population would almost double from 29,963 in 1996 to 51,669 in 2005. Actual inmate populations and recent projections have not met these forecasts. This is due to an unexpected drop in the crime rate, which has continued since 1994. Therefore, Corrections has significantly reduced future inmate population projections to reflect the current trends. The new facilities combined with the revised population projections resulted in excess capacity in many facilities. To address this, Corrections began contracting with other states to house some of their inmates. The following graph compares projected future inmate population, including out-of-state inmates, to capacity. Although it appears there will be a slight capacity shortage in fiscal year 2002, this assumes the maximum number of inmates allowed from each contract. Corrections management does not anticipate this shortage as they assume the number of out-of-state inmates will be closer to 90-95 percent of the maximum allowed in the contracts.

PROJECTED PRISON POPULATION AND CAPACITY



Source: Department of Corrections State Responsible Inmate Population Projections , Out of State Inmate Overview and Master Plan

In fiscal year 1998, Corrections contracted with and began housing out-of-state inmates from Delaware, Iowa, Michigan, Vermont, and the District of Columbia. Since fiscal year 1998, Corrections has added contracts with New Mexico, Connecticut, Hawaii and the Federal Bureau of Prisons, and terminated contracts with Michigan, Iowa, and Delaware. Corrections charges a daily rate between \$60 and \$75 based on the contract requirements and the security level of the inmates. Corrections retains revenue to cover the direct costs of housing these inmates and transfers a portion to the Department of Correctional Education (DCE) for educational costs. The remainder goes to the Commonwealth's General Fund for debt service costs. The following table shows out-of-state inmate population and revenue information and estimates through 2003.

	1999 (Actual)	2000 (Actual)	2001 (Estimated)	2002 (Estimated)	2003 (Estimated)
Average Daily Out-of-State-Inmate Population	2,166	3,487	3,309	2,922	297
Total Out-of-State Inmate Revenue	\$47,852,448	\$77,987,080	\$76,005,556	\$66,803,588	\$6,923,161
Total Amount Returned to the General Fund	\$9,539,721	\$21,383,807	\$4,400,000	\$11,110,000	None

Source: Department of Corrections Out of State Inmate Overview

Corrections obtained a \$12.5 million Treasury Loan in 1999 to cover start-up costs associated with housing out-of-state inmates. Corrections has repaid \$6.4 million of the loan, and plans on repaying the remainder in fiscal year 2003 at the anticipated termination of all out-of-state inmate contracts. Corrections relies solely on the out-of-state inmate revenues to cover all of the expenses for Sussex II, Wallens Ridge and St. Brides, as well as additional expenses directly associated with housing the inmates. With Corrections management anticipating the termination of all of the out-of-state inmate contracts by October 2002, Corrections could require additional General Fund appropriations to cover the expenses currently supported with the out-of-state inmate revenues.

COMPARISON OF MAJOR CORRECTIONAL CENTER COSTS

During fiscal year 2000, Corrections incarcerated an average daily population of 24,228 inmates in 26 of its major correctional centers. These facilities operate at various security levels ranging from minimum to super-maximum.

The Central Office establishes operating budgets for the correctional centers and maintains oversight through regional offices. Each correctional center operates as a separate agency with the Warden having primary responsibility for administering the facility's operating budget. In addition to the operating budget, Corrections also incurs other expenses for these facilities including debt service, maintenance reserve, inmate classification, and regional administration. The Department of Correctional Education, a separate agency, administers inmate education programs for the facilities and accounts for these costs. The tables on pages 6 through 12 compare operating and other costs for the major correctional centers.

As noted in the tables, the average per diem for operating costs range from \$40 to \$90 for the four levels of security with an average per diem of \$58 for all facilities. Operating costs do not include debt service, maintenance reserve, regional office administration, and education costs. The primary distinctions in cost variances are due to differences in security costs. Minimum-security facilities have the highest security costs because these prisons are the oldest and require the most manpower to secure and maintain. Super-maximum-security facilities house the most violent inmates with the highest security risk increasing their security costs.

Corrections contracted with a private vendor for the operation of a private medium-security prison, which we discuss in more detail in the section entitled "Prison Privatization." Corrections' contract with the vendor established a per diem rate of \$35.20 for the first 1,425 inmates and \$13.97 for each inmate above

1,425 during the first year, which began on March 23, 1998. The contract adjusts the per diem rates on March 23 of each of the four subsequent years with rates ranging from \$31.08 to \$33.96 for the first 1,425 inmates and \$14.39 to \$15.72 for each inmate above 1,425. For comparison purposes, we determined whether the Corrections' per diem and the private prison's per diem includes similar costs. The private prison's per diem rate covers all operating costs of the facility with the exception of the transportation costs of transferring the inmates in and out of the facility and depreciation expense. Neither of the per diems includes education costs or debt service costs. Also, the type of administrative costs included in the two figures is different. Corrections includes only facility administration. The private facility includes administration for its headquarters as well as the facility.

Corrections does not operate a facility that is comparable in size to the private prison. To make a reasonable comparison of the private prison's per diem, we will use Corrections' average operating per diem after excluding Greensville, Powhatan, Fluvanna, and the Virginia Correctional Center for Women (VCCW). We have excluded these facilities because Greensville and Powhatan have major medical facilities and Fluvanna and VCCW are female institutions. The private prison does not have a major medical facility and only houses male inmates. After these exclusions, the private facility per diem is approximately \$25 to \$27 less than the average per diem operating cost of \$56 for Corrections' facilities.

COMPARISON OF MAJOR CORRECTIONAL CENTER COSTS

	Red Onion Correctional Center Security Level 6	Wallen's Ridge Correctional Center Security Level 6	Sussex I Correctional Center Security Level 5	Sussex II Correctional Center Security Level 5
Average Daily Population-FY00	1,009	827	1,153	1,231
<u>Operating Expenses</u>				
General Operating	\$ 17,034,014	\$ 16,866,512	\$ 20,836,644	\$ 19,410,018
Depreciation Expense	2,874,300	447,904	212,158	346,518
Medical Expense	2,572,603	2,618,622	2,650,483	3,122,579
Total Operating	22,480,917	19,933,038	23,699,285	22,879,115
<u>Other Expenses</u>				
Debt Service	1,287,906	-	4,125,195	2,087,493
Maintenance Reserve	-	-	-	-
Overhead	567,119	464,824	648,055	691,896
Education	328,738	379,864	379,187	548,683
Total Other Expenses	2,183,763	844,688	5,152,437	3,328,072
Total Expenses	\$ 24,664,680	\$ 20,777,726	\$ 28,851,722	\$ 26,207,187
<u>Per Capita Expenses</u>				
Operating	\$ 22,280	\$ 24,103	\$ 20,554	\$ 18,586
Other	2,164	1,021	4,469	2,704
Total Per Capita Expenses	\$ 24,444	\$ 25,124	\$ 25,023	\$ 21,290
<u>Per Diem Expenses</u>				
Operating	\$ 61.04	\$ 66.04	\$ 56.31	\$ 50.92
Other	5.93	2.80	12.24	7.41
Total Per Diem Expenses	\$ 66.97	\$ 68.84	\$ 68.55	\$ 58.33

COMPARISON OF MAJOR CORRECTIONAL CENTER COSTS

	Keen Mountain Correctional Security Level 4	Nottoway Correctional Center Security Level 4	Augusta Correctional Center Security Level 3 and 4	Brunswick Correctional Center Security Level 3
Average Daily Population-FY00	841	1,149	1,140	655
<u>Operating Expenses</u>				
General Operating	\$ 13,465,915	\$ 21,198,120	\$ 17,958,556	\$ 17,482,076
Depreciation Expense	1,098,698	1,215,119	779,808	623,021
Medical Expense	1,570,623	2,240,443	2,778,821	2,346,952
Total Operating	16,135,236	24,653,682	21,517,185	20,452,049
<u>Other Expenses</u>				
Debt Service	4,637,254	-	-	-
Maintenance Reserve	44,193	2,748	506	139,656
Overhead	472,692	645,807	640,748	368,149
Education	427,501	569,253	469,863	738,537
Total Other Expenses	5,581,640	1,217,808	1,111,117	1,246,342
Total Expenses	\$ 21,716,876	\$ 25,871,490	\$ 22,628,302	\$ 21,698,391
<u>Per Capita Expenses</u>				
Operating	\$ 19,186	\$ 21,457	\$ 18,875	\$ 31,225
Other	6,637	1,060	975	1,903
Total Per Capita Expenses	\$ 25,823	\$ 22,517	\$ 19,850	\$ 33,128
<u>Per Diem Expenses</u>				
Operating	\$ 52.56	\$ 58.79	\$ 51.71	\$ 85.55
Other	18.18	2.90	2.67	5.21
Total Per Diem Expenses	\$ 70.74	\$ 61.69	\$ 54.38	\$ 90.76

COMPARISON OF MAJOR CORRECTIONAL CENTER COSTS

	Buckingham Correctional Center Security Level 3	Fluvanna Correctional Center Security Level 3	Greensville Correctional Center Security Level 3	Powhatan Correctional Center Security Level 3
Average Daily Population-FY00	952	889	2,825	818
<u>Operating Expenses</u>				
General Operating	\$ 16,099,414	\$ 15,388,872	\$ 43,689,040	\$ 19,129,410
Depreciation Expense	830,227	2,609,010	3,117,810	519,234
Medical Expense	2,049,806	5,464,022	9,800,780	7,293,388
Total Operating	18,979,447	23,461,904	56,607,630	26,942,032
<u>Other Expenses</u>				
Debt Service	1,848,086	2,901,609	11,086,691	-
Maintenance Reserve	4,650	-	121	431,339
Overhead	535,081	499,671	1,587,820	459,765
Education	452,938	945,758	1,465,391	569,500
Total Other Expenses	2,840,755	4,347,038	14,140,023	1,460,604
Total Expenses	\$ 21,820,202	\$ 27,808,942	\$ 70,747,653	\$ 28,402,636
<u>Per Capita Expenses</u>				
Operating	\$ 19,936	\$ 26,391	\$ 20,038	\$ 32,936
Other	2,984	4,890	5,005	1,786
Total Per Capita Expenses	\$ 22,920	\$ 31,281	\$ 25,043	\$ 34,722
<u>Per Diem Expenses</u>				
Operating	\$ 54.62	\$ 72.31	\$ 54.90	\$ 90.24
Other	8.18	13.40	13.71	4.89
Total Per Diem Expenses	\$ 62.80	\$ 85.71	\$ 68.61	\$ 95.13

COMPARISON OF MAJOR CORRECTIONAL CENTER COSTS

	Southampton Correctional Center Security Level 3	Bland Correctional Center Security Level 2	Coffeewood Correctional Center Security Level 2	Deep Meadow Correctional Center Security Level 2
Average Daily Population-FY00	517	600	1,174	925
<u>Operating Expenses</u>				
General Operating	\$ 12,306,558	\$ 13,324,315	\$ 14,202,101	\$ 12,994,159
Depreciation Expense	623,266	367,052	760,779	110,391
Medical Expense	951,732	1,950,356	2,391,515	2,220,969
Total Operating	13,881,556	15,641,722	17,354,395	15,325,519
<u>Other Expenses</u>				
Debt Service	-	305,945	2,326,485	-
Maintenance Reserve	1,283,109	16,463	-	12,864
Overhead	290,585	337,236	659,858	519,906
Education	863,326	543,744	626,468	458,965
Total Other Expenses	2,437,020	1,203,388	3,612,811	991,735
Total Expenses	\$ 16,318,576	\$ 16,845,110	\$ 20,967,206	\$ 16,317,254
<u>Per Capita Expenses</u>				
Operating	\$ 26,850	\$ 26,070	\$ 14,782	\$ 16,568
Other	4,714	2,006	3,077	1,072
Total Per Capita Expenses	\$ 31,564	\$ 28,076	\$ 17,859	\$ 17,640
<u>Per Diem Expenses</u>				
Operating	\$ 73.56	\$ 71.42	\$ 40.50	\$ 45.39
Other	12.91	5.49	8.43	2.94
Total Per Diem Expenses	\$ 86.47	\$ 76.91	\$ 48.93	\$ 48.33

COMPARISON OF MAJOR CORRECTIONAL CENTER COSTS

	Deerfield Correctional Center Security Level 2	Dillwyn Correctional Center Security Level 2	Haynesville Correctional Center Security Level 2	Indian Creek Correctional Center Security Level 2
Average Daily Population-FY00	458	1,015	1,076	912
<u>Operating Expenses</u>				
General Operating	\$ 8,117,760	\$ 13,125,632	\$ 15,405,723	\$ 13,512,196
Depreciation Expense	363,048	650,578	657,789	581,628
Medical Expense	1,727,261	2,410,037	2,737,375	1,864,964
Total Operating	10,208,069	16,186,247	18,800,887	15,958,788
<u>Other Expenses</u>				
Debt Service	1,137,263	-	2,636,680	-
Maintenance Reserve	-	-	2,198	-
Overhead	257,423	570,491	604,777	512,599
Education	391,010	417,972	600,863	604,968
Total Other Expenses	1,785,696	988,463	3,844,518	1,117,567
Total Expenses	\$ 11,993,765	\$ 17,174,710	\$ 22,645,405	\$ 17,076,355
<u>Per Capita Expenses</u>				
Operating	\$ 22,288	\$ 15,947	\$ 17,473	\$ 17,499
Other	3,899	974	3,573	1,225
Total Per Capita Expenses	\$ 26,187	\$ 16,921	\$ 21,046	\$ 18,724
<u>Per Diem Expenses</u>				
Operating	\$ 61.06	\$ 43.69	\$ 47.87	\$ 47.94
Other	10.68	2.67	9.79	3.36
Total Per Diem Expenses	\$ 71.74	\$ 46.36	\$ 57.66	\$ 51.30

COMPARISON OF MAJOR CORRECTIONAL CENTER COSTS

	James River Correctional Center Security Level 2	Lunenburg Correctional Center Security Level 2	Mecklenburg Reclassification Security Level 2	St. Brides Correctional Center Security Level 2
Average Daily Population-FY00	439	1,128	707	576
<u>Operating Expenses</u>				
General Operating	\$ 13,082,148	\$ 14,609,823	\$ 14,486,537	\$ 10,533,904
Depreciation Expense	617,016	791,759	420,627	188,104
Medical Expense	755,438	3,050,897	1,771,214	713,503
Total Operating	14,454,602	18,452,479	16,678,378	11,435,511
<u>Other Expenses</u>				
Debt Service	-	2,545,636	116,879	2,170,712
Maintenance Reserve	11,493	-	99,391	444,363
Overhead	246,744	634,004	397,377	323,747
Education	457,670	619,094	241,551	1,182,653
Total Other Expenses	715,907	3,798,734	855,198	4,121,475
Total Expenses	\$ 15,170,509	\$ 22,251,213	\$ 17,533,576	\$ 15,556,986
<u>Per Capita Expenses</u>				
Operating	\$ 32,926	\$ 16,359	\$ 23,590	\$ 19,853
Other	1,631	3,368	1,210	7,155
Total Per Capita Expenses	\$ 34,557	\$ 19,727	\$ 24,800	\$ 27,008
<u>Per Diem Expenses</u>				
Operating	\$ 90.21	\$ 44.82	\$ 64.63	\$ 54.39
Other	4.47	9.23	3.31	19.60
Total Per Diem Expenses	\$ 94.68	\$ 54.05	\$ 67.94	\$ 73.99

COMPARISON OF MAJOR CORRECTIONAL CENTER COSTS

	Staunton Correctional Center Security Level 2	Virginia Correctional Center for Women Security Level 2	ALL MAJOR Correctional Centers
Average Daily Population-FY00	753	459	24,228
<u>Operating Expenses</u>			
General Operating	\$ 13,191,939	\$ 9,441,585	\$ 416,892,971
Depreciation Expense	111,223	137,666	21,054,733
Medical Expense	3,218,070	2,469,755	72,742,208
Total Operating	<u>16,521,232</u>	<u>12,049,006</u>	<u>510,689,911</u>
<u>Other Expenses</u>			
Debt Service	-	319,628	39,533,462
Maintenance Reserve	165,890	33,179	2,692,163
Overhead	423,231	257,986	13,617,591
Education	719,641	858,538	15,861,676
Total Other Expenses	<u>1,308,762</u>	<u>1,469,331</u>	<u>71,704,892</u>
Total Expenses	<u>\$ 17,829,994</u>	<u>\$ 13,518,337</u>	<u>\$ 582,394,803</u>
<u>Per Capita Expenses</u>			
Operating	\$ 21,941	\$ 26,251	\$ 21,079
Other	1,738	3,201	2,960
Total Per Capita Expenses	<u>\$ 23,679</u>	<u>\$ 29,452</u>	<u>\$ 24,039</u>
<u>Per Diem Expenses</u>			
Operating	\$ 60.11	\$ 71.92	\$ 57.75
Other	4.76	8.77	8.11
Total Per Diem Expenses	<u>\$ 64.87</u>	<u>\$ 80.69</u>	<u>\$ 65.86</u>

PRISON PRIVATIZATION

Corrections contracted with a private corporation, Corrections Corporation of American (CCA), for the construction and operation of a medium-security prison with 1,536 general population beds, and 42 segregation beds. The facility, located in Lawrenceville, opened in March 1998. The contract requires Corrections to maintain the facility at a minimum capacity of 1,425 inmates. The average daily population for fiscal year 2000 was 1,542. As of May 15, 2001, Lawrenceville houses approximately 1,571 Virginia inmates.

To ensure CCA meets all contract requirements, Corrections has a full-time Liaison Officer on-site. The Liaison Officer monitors daily activities and coordinates issues and problems between Corrections and the prison staff. The Liaison Officer reports directly to the Regional Director for Corrections' Central Region, who provides additional oversight, much as he does for the Corrections' operated facilities in the Central Region. The Liaison Officer also works closely with Corrections' Private Prison Administrator, who handles contractual issues and oversight at Corrections' central office.

Originally, the Department of Correctional Education (DCE) was to provide vocational training and academic education, which are functions and responsibilities of DCE. DCE decided to privatize the academic education and vocational training within Lawrenceville Correctional Center, and amended the original contract for CCA to begin providing educational services January 1, 1999. CCA established inmate work, vocational, and educational programs. DCE monitors the educational program requirements.

CCA obtained American Corrections Association (ACA) accreditation during November 1999. ACA is a national private non-profit organization that establishes standards for correctional institutions. Most Corrections' facilities do not have ACA accreditation because they cannot meet all of the accreditation standards. Specifically, Corrections' older facilities cannot meet the construction requirements. However, Corrections has its own institutional standards for its facilities. CCA must also meet Corrections' institutional standards. Corrections performed an institutional compliance audit in March 1999 for Lawrenceville. Due to 63 deficiencies noted during the compliance audit, Corrections placed CCA on Probationary Certification. The Board of Corrections scheduled another audit for August 2000. Based on the follow-up audit on August 9, 2000, Lawrenceville received an unconditional certification.

As a result of a prior year audit recommendation and a requirement of the 1999 Acts of the General Assembly, Chapter 935, Corrections is currently evaluating the long-term cost and effectiveness of the privately-operated facility. The evaluation will include the facility's compliance with state and national professional standards, the effectiveness of education and treatment programs, the overall security of the facility, the conditions under which prisoners are incarcerated, the maintenance of the physical facility, and the cost-effectiveness of the facility's operating procedures.

As part of this evaluation, Corrections will assess whether they can use design features and operating procedures used by the private facility to reduce its operating costs without compromising security and public safety. Corrections completed development of an evaluation methodology in October 1999. Currently, Corrections is collecting data for analysis with an expected report issuance date of October 2001.

INFORMATION SYSTEMS

Corrections provides information technology services through 27 different applications and systems operating on a DEC VAX Cluster, an IBM Mainframe, NT servers, and personal computers. Corrections is

working on implementing an enterprise-wide system, which will replace, integrate, and web-enable the 27 applications/systems currently used at Corrections. In connection with the project, Corrections is also replacing the current network hardware. The system, the Integrated Correctional Information System (ICIS), will provide the following functions:

1. Automate support of the administration of finance, human resources, and offender management.
2. Integrate processes spanning multiple functional areas.
3. Greater access to current information.
4. Streamline departmental policies and procedures; and provide a coherent set of business rules for all Correctional facilities Statewide.

Corrections has contracted with KPMG for the first phase of ICIS planning, which they completed in May 2001. This phase included several deliverables including a project budget and financing options. KPMG has estimated the total cost of the project at \$71 million. Corrections, at the direction of the Secretary of Public Safety's Information Technology Oversight Committee, has decided to enter into a financing agreement with Koch Financial. Under the agreement, Corrections will have a \$40 million line of credit, which it will use to finance the costs of the system. The following schedule shows the estimated payments that Corrections will make, with the final payments being made in 2011.

	2001	2002	2003	2004	2005	2006-2011	Total
Payments	\$4,045,963	\$4,036,570	\$6,352,854	\$6,407,879	\$6,680,498	\$43,794,359	\$71,318,123

In March 2001, Corrections signed a licensing agreement with SAP for financial, human resources, and manufacturing software at a cost of \$4 million. Corrections has also begun a strategic development partnership with SAP for the development of the Offender Management System. This partnership involves several other states as well as Virginia. SAP is responsible for all development costs involved with the creation of the Offender Management System.

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Procedures over Small Purchase Charge Card Program

Corrections needs to improve procedures over its Small Purchase Charge Card program (SPCC). Corrections has issued charge cards to approximately 375 staff for purchasing various goods and services. Corrections staff made purchases of over \$15 million under the program between July of 1999 and December of 2000. The Department has developed policies and procedures for the program to ensure that all purchases made using the SPCC are appropriate and that charge card statements are accurate. However, we found the following instances where staff were not following the procedures.

- Corrections staff are not submitting the reviewed and approved card member statements to the accounting department for reconciliation. We found two of eight SPCC billing statements tested not reconciled to the card member statements. The Commonwealth Accounting Policies and Procedures (CAPP) manual requires the reviewed and approved card member's statements go to the accounting department for reconciliation before receipt of the following month's bill.
- SPCC purchasing logs did not contain all of the required fields identified by the CAPP manual. The CAPP manual requires agency personnel to document the agency name and unit, the cardholder's name, the date of purchase, vendor name, description of purchase, and the amount of the purchase on the SPCC purchasing log. Three of the 12 purchasing logs tested did not include all of the required fields, including the cardholders' name and the amount of the purchase.
- Corrections staff did not retain adequate documentation to support the purchases made with the small purchase charge card. Three of the 12 purchasing logs tested did not include adequate receipts for purchases made.
- Items purchased, using the small purchase charge card, do not appear reasonable in relation to the purpose of the SPCC program. Two of the 12 purchasing logs tested included items that did not appear reasonable, including items for inmates that should have come from Commissary profits. We also found a purchase that should come through Corrections contract with Diamond pharmacy.
- Corrections staff are not reconciling the monthly SPCC card member statement to the purchasing log. Five of the 12 purchasing logs tested did not reconcile to the card member statements. In addition, we found the reconciliations had no indication of a supervisor review and approval. Two of the 12 purchasing log reconciliations tested did not document approval from the cardholder, and the cardholder's supervisor.
- Corrections' employment termination procedures do not include the collection of any credit cards issued. Corrections conducted a review and found several active SPCC accounts for personnel who were no longer employed by the agency. This review was limited to Corrections' central agencies.

Corrections should continue to enforce its procedures over the charge card payment and reconciliation process. Corrections should continue to improve procedures over the SPCC given the volume and dollar amount of transactions in the program.

Improve Internal Controls Over Payroll

Corrections needs to improve internal controls to ensure the timely and accurate processing of payroll and fringe benefit transactions. Payroll and fringe benefit expenses total almost \$500 million, accounting for 67 percent of Corrections' operating expenses. The Department uses several automated systems to process and track payroll and benefit information, including the Commonwealth's Integrated Personnel and Payroll System (CIPPS). We found several internal control weaknesses, many due to poor communication between agency personnel and not following procedures. Below is a discussion of each of these issues.

- There were several instances where Corrections staff did not follow procedures to promptly report employee job status changes to the human resources and payroll divisions. As a result, one employee received three paychecks while on leave without pay, and two employees on disability leave continued to receive their regular pay.
- The payroll division incorrectly calculated the number of disability days for an employee under the Virginia Sickness and Disability Program. The miscalculation resulted in an underpayment of employee benefits.
- Corrections improperly enrolled employees in the Deferred Compensation Cash Match for one of the 57 employees tested; and improperly enrolled employees in the new Virginia Law Officers Retirement System (VALORS) for two of the 57 employees tested.
- There were several instances in which Corrections personnel did not follow procedures for recording and reporting leave liability. As a result, Corrections failed to record the correct leave amounts for 5 of the 55 employees tested. These errors caused several inaccurate accounting entries in the leave and payroll records.
- Corrections did not properly reconcile CIPPS to the Benefits Eligibility System (BES). Of the 76 reconciliations tested, 30 did not include the appropriate reconciling adjustments on the Certification of the Healthcare Reconciliation Form submitted to DOA.

Overall, Corrections needs to enforce its procedures that ensure agency personnel promptly communicate all changes in employee status to the human resources and payroll divisions. In addition, Corrections should strengthen procedures over the payroll and leave process to specifically address the items discussed above.

Follow Inmate Payroll Procedures

We reviewed inmate payroll processing at four institutions and found policies and procedures were not followed at three of these institutions. The Code of Virginia requires Corrections to provide inmates with work opportunities and vocational training, and an allowance for each day of labor. Corrections has

established policies and procedures for inmate payroll processing, but we found the following instances where the policies and procedures were not followed:

- Corrections' procedures require the Warden/Superintendent or designee to review and approve (sign and date) the Payroll Summary Register and the Report of Inmates Exceeding Specified Hours Per Week before the inmate payroll can be processed. We found these reports were not properly approved at three of four institutions reviewed. By not obtaining proper review and approval of these reports, Corrections could improperly pay inmates.
- At one institution, we found 40 percent of the time cards tested did not have proper signature or indication why it was not signed; including an instance in which the institution allowed an inmate to sign the incorrect timecard. Corrections' procedures state that inmates should sign time cards. If an inmate fails to show up to sign the time card, supervisors should note this on the time card before submitting the cards to the business office. Failure to have inmates properly sign time cards could result in incorrect pay.
- At one institution, we found three of the inmates in our sample were not paid for the hours worked over 30 in a given week because this overtime was not approved. Corrections' procedures require supervisors to ensure that no inmate works more than 30 hours a week unless pre-approved by the Regional Director. However, policies and procedures state that even when an inmate works overtime without proper approval from the Regional Director, the inmate should be paid for all hours worked. Failing to pay inmates for all hours worked could lead to disputes over inmate pay and create a liability for Corrections.

Ensure Proper Recording and Tracking of Leases

Corrections needs to properly record and track leases. Corrections uses the Lease Accounting System (LAS) to track and monitor their leases. We found the following specific internal control weaknesses over leases, some of which arose from poor communication between institution personnel and the central office; and staff not following procedures.

- As reported in our previous audit, Corrections' procedures do not ensure that all capital lease payments are properly recorded on the Commonwealth Accounting and Reporting System (CARS). Corrections initially records all lease payments as operating leases until the Department of Accounts (DOA) determines whether it is a capital or operating lease. Once DOA determines the lease classification, Corrections does not consistently change the coding from operating to capital leases and as result we found 12 of 28 lease payments tested incorrectly coded as operating leases on CARS.
- Institution staff are not communicating lease changes to central office. As a result, central office cannot update LAS for new leases and lease changes. We tested 28 lease payments and found four payments for leases not on LAS. We also found a terminated lease not removed from LAS because central office had no notification of the change.

- Corrections did not record capitalized equipment on their fixed asset system for 7 of 24 capital leases tested.

Overall, Corrections needs to improve its procedures to ensure that agency personnel promptly communicate all changes in leases to central office.

May 21, 2001

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Corrections** and **Virginia Parole Board** for the year ended June 30, 2000. Financial information, findings, and recommendations related to Virginia Correctional Enterprises are contained in a separate audit report we have issued. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of the audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenue
Expenditures
Contract Management

Inmate Trust Funds
Commisary Funds

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and Corrections' "Annual Management Information Summaries Report."

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations." We believe that none of the reportable conditions is a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed instances of noncompliance that are required to be reported under Government Auditing Standards, which are discussed in the section entitled "Internal Control and Compliance Findings and Recommendations."

Corrections has not taken adequate corrective action with respect to the previously reported finding entitled "Properly Record Capital Lease Payments." This is included in the current year finding entitled "Ensure Proper Recording and Tracking of Leases" in the section entitled "Internal Control and Compliance Findings and Recommendations." The Department has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on July 19, 2001.

AUDITOR OF PUBLIC ACCOUNTS

LCR:aom
aom: 56

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Richmond, Virginia

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Gene Johnson, Deputy Director
John Jabe, Deputy Director

Ted Link, Controller

Garey Conrad, Fiscal Director

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